



Jody B. Olson  
Chairman  
of the  
Board,  
PERSI

## *A message from the Chairman*

## **Your Retirement Board actively monitors and manages the PERSI Choice Plan 401(k) for you**

A great way to build your retirement nest egg is to consistently contribute as much as you can to your Choice Plan 401(k).

You may think that the PERSI Choice Plan 401(k) runs itself, but in fact, your Retirement Board is very active in the management of the plan. Among many other things, we continually monitor the performance of the different investment options the plan offers. We review quarterly reports on fund performance and change out managers that are not performing to our standards. An example of this was when, in August 2003, we replaced ING as a fund option with T. Rowe Price because ING's fund style and ongoing performance did not meet plan expectations. We also monitor fund asset management fees to keep them as low as possible for you. An example of this also occurred in August 2003, when we changed the type of shares offered in the Vanguard Growth and Income Fund to offer a 0.11% lower expense ratio, meaning more earnings for Vanguard investors.

And recently, we have taken action to protect plan participants from trading practices that adversely affect the plan due to "Market Timing" or "Excessive Trading." Over six months ago PERSI found that a handful of participants had been engaging in market timing or excessive trading practices in the two international funds in the PERSI Choice Plan 401(k) (Mellon International and Brandes International). While this is not illegal, it skews the performance of those funds, increases costs to all of the participants in the funds, and dilutes the returns of long-term shareholders in the funds.

The Choice Plan is designed to give members a low-cost, long-term retirement savings vehicle to supplement their PERSI Base Plan benefit. It is not meant for market timing and/or day trading.

The Investment Policy was changed in December 2003 to address the concerns raised by these practices. The full policy is available on our website at:  
[www.persi.state.id.us/Choice\\_Plan/Choice\\_Plan\\_Investment\\_Policy.htm](http://www.persi.state.id.us/Choice_Plan/Choice_Plan_Investment_Policy.htm).

### **Trading Limitations to be Imposed**

Effective August 1, 2004, the number of trades (transfers) into and out of the Mellon International and Brandes International funds will be limited to two trades per fund in a 90-day period. The 90-day period will be based on calendar days and will be calculated on a rolling period from the current date. Systematic purchases and redemptions, such as payroll deferrals, rollovers, and scheduled periodic distributions, are exempt from the limits.

The market timing/excessive trading issue affects plans throughout the U.S. and has caught the attention of the media and regulatory agencies. The SEC is preparing proposals to address the issue for funds under its control. Other plans are making changes as well. Likewise, the Retirement Board has decided to take steps to protect the assets of all plan participants.

# Survey shows that Social Security option can be a valuable retirement option for those who understand it and make it work to their advantage

At retirement, PERSI members have six benefit payment options to select from. One of them, Option 3, the Social Security Adjustment Option, provides an increased benefit from PERSI until the retiree reaches Social Security Retirement Age, and then a reduced amount thereafter. Option 3 is payable for the member's lifetime only. This option is advantageous because it provides the largest income until Social Security Retirement Age. It is disadvantageous because at Social Security Retirement Age, the PERSI benefit drops, often significantly. It could even drop to zero.

All too often we have heard from Option 3 retirees who reached Social Security Retirement Age and were extremely upset because they had forgotten that their PERSI benefit would drop. From repeatedly hearing these comments over the years, our perceptions of this option were that, for many who selected it, it was extremely detrimental.

To see if these perceptions were accurate, we decided to survey our retirees who had selected Retirement Option 3, Social Security Adjustment, as their retirement option.

- With this survey we wanted to determine:
- Did retirees feel they understood the option at time of retirement?
  - Why did they choose this option?
  - At Social Security retirement age, when their PERSI payment changed, did they remember this was going to occur?
  - Did the option work out for them as they anticipated?
  - Would they recommend the Social Security option to others?

In the fall of 2003 we sent a survey to every Option 3 retiree between the ages of 67 and 80. Some 790 surveys were distributed.

We received 509 completed surveys back for a response rate of 64.5%.

The responses were somewhat surprising. Some

- of the highlights include:
- 80% of retirees said the arrangement worked out as expected.
  - 68% said they would select the same option again.
  - 70% replied that at time of retirement they felt they fully understood their payment would be reduced.
  - 91% said that when they turned Social Security Retirement Age they remembered their PERSI amount was going to be reduced.
  - 68% selected the option because they needed the higher amount earlier to be able to retire when they wanted to.

These results contradicted our preconceived ideas about the extent of the negative experiences of Option 3 retirees. For the most part, the option has worked out as expected for those who selected it. The majority of those on Option 3 would select it again. It seems that those who were negatively affected by the drop in benefit were simply more vocal than those who were pleased with the outcome. This, of course, coincides with the general tenet of customer satisfaction that you are far more likely to hear from dissatisfied customers than satisfied ones.

While it is good to see that more retirees than expected are content with Option 3, we at PERSI do what we can to ensure that no retirees have negative or devastating experiences due to selecting that option. Because a large number of retirees do not choose to receive retirement counseling when selecting an option, there will always be those who are dissatisfied by their Option 3 benefit drop. Retirees who work with a Member Service Rep, can help ensure they will be among the ones who are happy and content with the option they select.

PERSI now requires more specific Social Security quotes which allows us to provide more accurate benefit estimates. Our communications tools have improved over the last decade in that our information has more "warnings" about the possible negative consequences of the option, and this information is available from different sources (Web, handbook). Members also receive a letter prior to

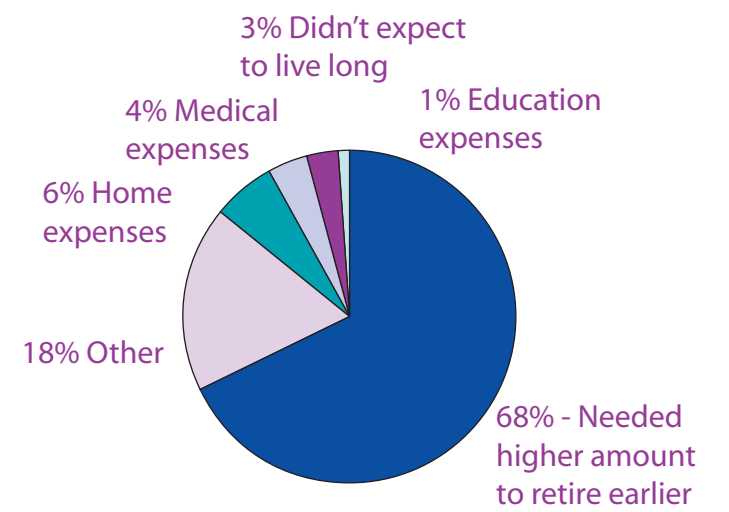
their Social Security Retirement Age reminding them that their benefit will change.

Retirement Option 3 can be a valuable choice for those retirees who understand it and can make it work to their advantage.

## Social Security Option 3 Survey Results

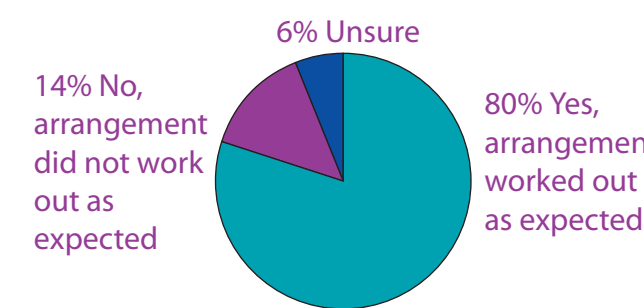
**Q: At your time of retirement, you selected the PERSI Social Security Adjustment option for your retirement payments. This paid you a higher amount until your Social Security Normal Retirement Age (SSNRA) (65 - 67) and then a reduced PERSI amount after your SSNRA. Was there a reason you wanted more money earlier?**

- Education expenses
  - Home expenses
  - Medical
  - Didn't expect to live long
  - Needed the higher amount earlier to be able to retire on the date I wanted
  - Other
- 68% said they needed the higher amount earlier to be able to retire on the date they wanted
  - 18% selected other
  - 6% said home expenses
  - 4% said medical expenses
  - 3% said they didn't expect to live long
  - 1% said education



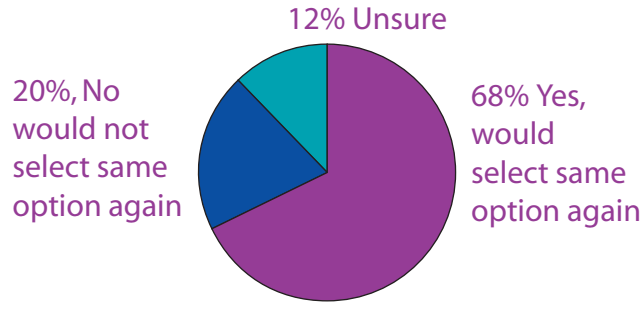
**Question 2: Did the arrangement work out for you as you expected?**

- 80% of retirees said yes, the arrangement worked out as expected
- 14% said no, it did not work out as expected
- 6% were unsure



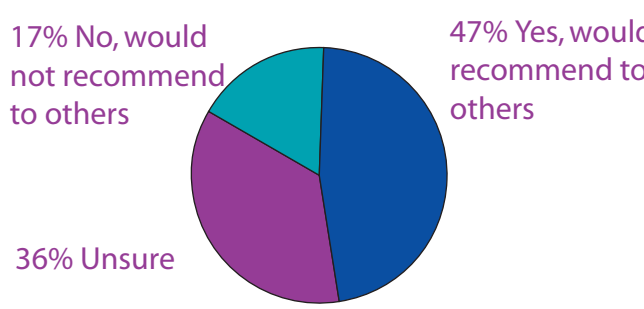
**Q: Would you select the same option again?**

- 68% said yes, they would select the same option again
- 20% said no, they would not select the same option again
- 12% were unsure



**Q: Would you recommend this option to others?**

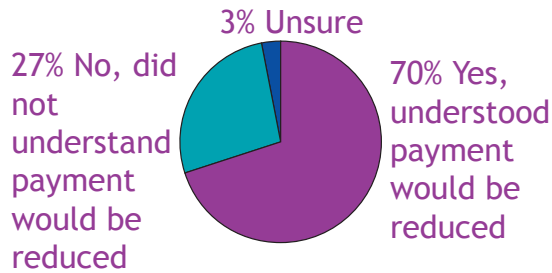
- 47% said yes, they would recommend this option to others
- 17% said no, they would not recommend this option to others
- 36% were unsure



# Social Security option survey continued from page 3

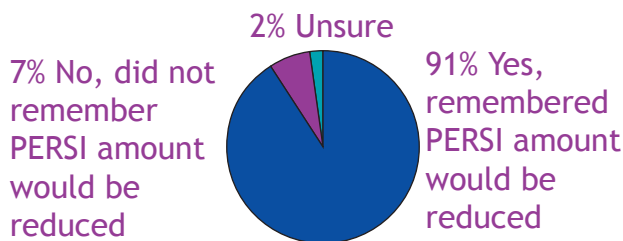
**Q: At time of retirement, do you think you fully understood the amount that your PERSI payment would later be reduced?**

- 70% replied yes, they felt they fully understood their payment would be reduced
- 27% replied no, they did not fully understand their payment would be reduced
- 3% were unsure



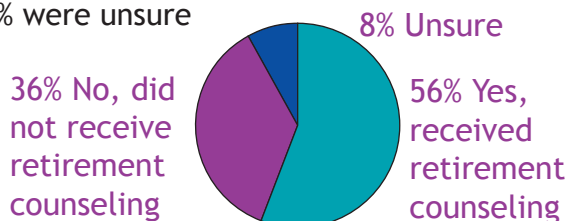
**Q: When you turned Social Security Normal Retirement Age, did you remember that your PERSI amount was going to be reduced?**

- 91% said yes, they remembered their PERSI amount was going to be reduced
- 7% said no, they did not remember their PERSI amount would be reduced
- 2% were unsure



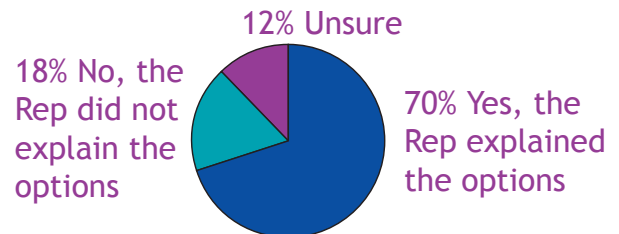
**Q: At time of retirement, did you receive retirement counseling from a PERSI Member Representative?**

- 56% said yes, they had received counseling from a PERSI Representative
- 36% said no, they had not received counseling
- 8% were unsure



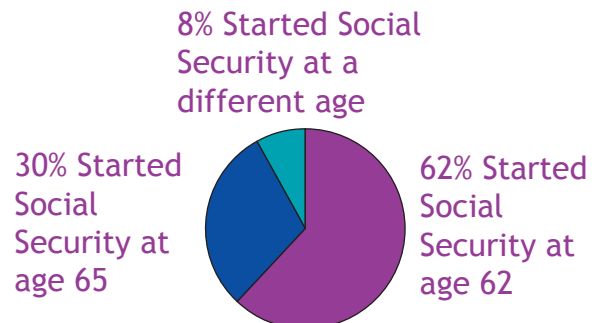
**Q: Did the PERSI Member Representative explain to you about your options?**

- 70% said yes, the Rep explained the options
- 18% said no, the Rep did not explain the options
- 12% were unsure



**Q: Did you start drawing Social Security at age 62, 65 or other?**

- 62% started drawing Social Security at age 62
- 30% started drawing Social Security at age 65
- 8% started Social Security at a different age



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